
LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2007

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/6/08

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2007

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Risk Management Agency
Public Liability Fund
Baton Rouge, Louisiana

We have audited the accompanying statements of net assets of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund) as of December 31, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Public Liability Fund as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 and the schedule ten-year claims development information on page 16, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 6, 2008, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 6, 2008

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Public Liability Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2007 and 2006. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2007 by \$3,895,528 compared to \$1,016,266 as of December 31, 2006, which is a 383% increase.
- At December 31, 2007, the Fund's assets totaled \$16,165,111, which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and accounts receivable. At December 31, 2006, the Fund's assets totaled \$13,650,032 and were comprised of similar types of assets.
- The Fund reported earned premiums of \$10,432,659 and \$8,931,289 during the years ended December 31, 2007 and 2006, respectively.
- Net assets increased by \$2,879,262 during the year ended December 31, 2007 compared to a reduction of \$97,404 during 2006.
- At the end of the current fiscal year, the Fund's net assets totaled \$3,895,528 or 46% of current year expenses.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Assets include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). These statements also provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all of its costs through its premium and investment income, profitability and credit worthiness. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

Overview of the Financial Statements (continued)

The preparation of these financial statements requires the utilization of significant estimates. Changes in estimates, as well as the differences in actual results and estimated amounts, will be included in the Statements of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the Net Assets of the Fund and changes in them. The net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Assets at December 31,:

	<u>2007</u>	<u>2006</u>
Total assets	\$ 16,165,111	\$ 13,650,032
Total liabilities	<u>12,269,583</u>	<u>12,633,766</u>
Net assets	<u>\$ 3,895,528</u>	<u>\$ 1,016,266</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 18% and consist primarily of investments in U.S. Government and Agency debt securities. Total liabilities decreased approximately 3% due to a decrease in unpaid claims liabilities.

Condensed Statements of Revenues and Expenses and Changes in Net Assets for the Years Ended December 31,:

	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 10,432,659	\$ 8,931,289
Operating expenses	<u>8,395,917</u>	<u>9,588,210</u>
Operating income (loss)	2,036,742	(656,921)
Non-operating income	<u>842,520</u>	<u>559,517</u>
Change in net assets	<u>\$ 2,879,262</u>	<u>\$ (97,404)</u>

Financial Analysis of the Fund (continued)

During the year ended December 31, 2007, the Fund reported premium income of \$10,432,659 and investment income of \$842,520. Premiums increased during 2007 due to increases in premium rates as well as some favorable changes in premium estimates attributable to prior years. The Fund reported total expenses of \$8,395,917 which consisted primarily of claims, reinsurance premiums, administrative and service agent fees. Claims expense decreased in the current year primarily as a result of significant adverse development of estimated claims liabilities during the prior year. The Fund experienced a net increase in net assets of \$2,879,262 for the current year. See Statements of Revenues, Expenses and Changes in Net Assets on page 6 of this report.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency – Public Liability Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Investments (note 4)	\$ 13,962,334	\$ 11,622,990
Accounts receivable, net	1,375,670	922,440
Reinsurance receivable (note 3)	435,731	746,864
Deductibles receivable	282,120	228,487
Accrued interest receivable	<u>109,256</u>	<u>129,251</u>
	<u>\$ 16,165,111</u>	<u>\$ 13,650,032</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Unpaid claims liability (note 3)	\$ 9,816,000	\$ 10,245,000
Unearned premiums	2,261,641	2,253,064
Due to affiliates - net (note 2)	189,288	132,788
Accrued expenses	<u>2,654</u>	<u>2,914</u>
Total liabilities	12,269,583	12,633,766
Net assets	<u>3,895,528</u>	<u>1,016,266</u>
	<u>\$ 16,165,111</u>	<u>\$ 13,650,032</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 10,432,659	\$ 8,931,289
Total operating revenues	<u>10,432,659</u>	<u>8,931,289</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	5,207,259	6,507,397
Reinsurance premiums (note 2)	1,722,617	1,663,050
Administrative fees (note 2)	717,757	692,937
Service agent fees (note 2)	717,757	692,937
Miscellaneous	<u>30,527</u>	<u>31,889</u>
Total operating expenses	<u>8,395,917</u>	<u>9,588,210</u>
<u>OPERATING INCOME (LOSS)</u>	2,036,742	(656,921)
<u>NON-OPERATING EXPENSES</u>		
Investment income, net (note 4)	<u>842,520</u>	<u>559,517</u>
<u>CHANGE IN NET ASSETS</u>	2,879,262	(97,404)
NET ASSETS - BEGINNING OF YEAR	<u>1,016,266</u>	<u>1,113,670</u>
NET ASSETS - END OF YEAR	<u>\$ 3,895,528</u>	<u>\$ 1,016,266</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Operating income (loss)	\$ 2,036,742	\$ (656,921)
Adjustments to reconcile operating income (loss) to net cash used in operations:		
Change in receivables	(195,730)	830,072
Change in unpaid claims liability	(429,000)	741,000
Change in accrued expenses, unearned premiums and due to affiliates	64,817	(1,348,416)
Net cash provided by (used in) operating activities	<u>1,476,829</u>	<u>(434,265)</u>
Cash flows from investing activities:		
Purchases of investments	(4,540,128)	(3,485,134)
Proceeds from sales and maturities of investments	2,426,297	3,259,569
Investment income received	637,002	659,830
Net cash (used in) provided by investing activities	<u>(1,476,829)</u>	<u>434,265</u>
Net change in cash	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Background and Financial Statement Presentation*

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The LMRMA Public Liability Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2007 and 2006, there were 250 and 286 participating municipalities, respectively.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the LMRFA is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Public Liability Fund.

The various LMRMA and LMRFA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net assets are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 14.

(b) *Basis of Accounting*

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
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NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Investments*

Investments are reported at estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include money market accounts, repurchase agreements, U.S. Government Agency obligations and U.S. Treasury securities and are held for long-term purposes.

(d) *Premium Income and Receivables*

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known. Acquisition costs associated with new and renewal contracts are immaterial to the financial statements and are expensed when incurred.

The Fund considers accounts receivable, reinsurance receivable, and deductibles receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts or deductibles become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(e) *Operating / Non-Operating Revenue and Expenses*

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(f) ***Unpaid Claims Liability***

The Fund provides liability coverage to members for claims incurred during the benefit period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverages such as public liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements.

(g) ***Statement of Cash Flows***

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments.

(h) ***Excess Reinsurance***

The Fund uses excess reinsurance to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the insured risks. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

(i) ***Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
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NOTES TO FINANCIAL STATEMENTS

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(j) ***Use of Estimates***

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

(k) ***Reclassifications***

Certain items in the 2006 financial statements have been reclassified to be comparative to the 2007 presentation.

2. **RELATED PARTY TRANSACTIONS**

LMA, RMI and LMRFA provides services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the earned standard premiums (ESP). The respective percentages of the respective earned standard premiums (ESP) as follows:

	<u>2007</u>	<u>2006</u>
Expenses (and current fee structure):		
Administrative fee - LMA		
(6.25% of ESP)	\$ <u>717,757</u>	\$ <u>692,937</u>
Service agent - RMI		
(6.25% of ESP)	\$ <u>717,757</u>	\$ <u>692,937</u>
Reinsurance - LMRFA		
(15.00% of ESP)	\$ <u>1,722,617</u>	\$ <u>1,663,050</u>
Reinsurance recoveries from LMRFA	\$ <u>4,050,656</u>	\$ <u>3,564,380</u>
Due to (from) affiliates:		
LMA	\$ 477,754	\$ 452,939
RMI	(125,381)	(304,755)
LMRFA	(163,085)	(15,396)
	\$ <u>189,288</u>	\$ <u>132,788</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
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NOTES TO FINANCIAL STATEMENTS

3. **CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 24,016	\$ 22,176
Less: reinsurance recoverables	<u>13,771</u>	<u>12,672</u>
Liability for unpaid losses at beginning of year, net	<u>10,245</u>	<u>9,504</u>
Net incurred related to:		
Current year	4,527	4,316
Prior years	<u>680</u>	<u>2,191</u>
Total incurred	<u>5,207</u>	<u>6,507</u>
Net paid related to:		
Current year	928	478
Prior years	<u>4,708</u>	<u>5,288</u>
Total paid	<u>5,636</u>	<u>5,766</u>
Liability for unpaid losses at end of year, gross	22,455	24,016
Less: reinsurance recoverables	<u>12,639</u>	<u>13,771</u>
Liability for unpaid losses at end of year, net	<u>\$ 9,816</u>	<u>\$ 10,245</u>

In addition to the unpaid claims covered by the Fund's reinsurer (LMRFA), there are \$435,731 and \$746,864 of paid claims which are recoverable from the reinsurer at December 31, 2007 and 2006, respectively.

During 2007 and 2006, the Fund experienced overall unfavorable development on unpaid claims liabilities established in prior years related primarily to certain adverse judicial proceedings. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2007 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2007 will not vary from the above estimates, and such difference could be significant.

The Fund's claims payable have been discounted for December 31, 2007 and 2006, based on the Fund's anticipated payout patterns and a discount rate assumption of 5.0% and 5.25%, respectively which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$1,016,000 and \$1,229,000 at December 31, 2007 and 2006, respectively.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
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NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution in question. In regard to deposits and investments, the Fund was in compliance with these revised provisions as of and during the years ended December 31, 2007 and 2006.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements. The Fund policy is to wire-transfer cash as needed from investments to support disbursements. Consequently, a zero cash balance is maintained.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Fund's exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2007 and 2006:

<u>Investment Type</u>	<u>2007</u>		<u>2006</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage- backed and Agency debt obligations	\$ 8,853,345	\$ 8,665,849	\$ 9,657,532	\$ 9,742,493
Short term investments	<u>5,108,989</u>	<u>5,108,989</u>	<u>1,965,458</u>	<u>1,965,458</u>
TOTAL	<u>\$ 13,962,334</u>	<u>\$ 13,774,838</u>	<u>\$ 11,622,990</u>	<u>\$ 11,707,951</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
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NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a good tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk as of December 31, 2007 and 2006.

Standard and Poor's Rating	Estimated Fair Value 2007	Estimated Fair Value 2006
U.S. Government securities and money market -		
Not rated	\$ 8,624,410	\$ 7,435,782
Rated AAA	<u>5,337,924</u>	<u>4,187,208</u>
Total	<u>\$ 13,962,334</u>	<u>\$ 11,622,990</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2007:

INVESTMENT MATURITIES (in years)

<u>Investment Type</u>	<u>Estimated Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>Greater than 10</u>
Short term investments	\$ 5,108,989	\$ 5,108,989	\$ -	\$ -	\$ -
U.S. Government mortgage backed and Agency debt obligations	<u>8,853,345</u>	<u>100,156</u>	<u>4,041,060</u>	<u>2,370,724</u>	<u>2,341,405</u>
	<u>\$ 13,962,334</u>	<u>\$ 5,209,145</u>	<u>\$ 4,041,060</u>	<u>\$ 2,370,724</u>	<u>\$ 2,341,405</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
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NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Net investment income for the years ended December 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Interest income	\$ 610,052	\$ 593,427
Realized losses – net	(39,989)	(55,843)
Unrealized gains arising during the year - net	<u>272,457</u>	<u>21,933</u>
	<u>\$ 842,520</u>	<u>\$ 559,517</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment on deposit. At December 31, 2007, the Fund had no direct investments in foreign fixed-income securities.

5. REINSURANCE POLICY COVERAGE

During the years ended December 31, 2007 and 2006, LMRFA provided reinsurance to LMRMA Public Liability Fund with the following limits:

- Item I: \$5,000,000 annual aggregate in excess of 65% of earned normal premium
- Item II: Each and every loss in excess of \$100,000 each and every loss

The Fund and LMRFA represent a cooperative program for group funding and risk management of public liability claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants.

Prior to 1993, Louisiana law limited the liability of the municipalities to \$500,000 per occurrence. During 1993, the Louisiana Supreme Court revoked this limit. The above "specific reinsurance limits" for the Public Liability Fund cover claims up to \$500,000. As of November 1, 1995, the statutory liability increased to \$750,000 from \$500,000. The Fund's coverage remains unchanged.

The following are condensed Statements of Net Assets for LMRFA at December 31:

	<u>2007</u>	<u>2006</u>
Assets	\$ 41,849,955	\$ 41,263,666
Liabilities	<u>20,058,528</u>	<u>19,815,298</u>
Net Assets	<u>\$ 21,791,427</u>	<u>\$ 21,448,368</u>

SUPPLEMENTAL INFORMATION

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
CLAIMS EXPENSE AND RE-ESTIMATED CLAIM ADJUSTMENT EXPENSE**

DECEMBER 31, 2007

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense (net of loss assumed by reinsurers) incurred by the Fund as of the end of 2007 and as of the end of each of the last nine years.

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
	(in thousands)									
ENP and investment income	\$ 11,275	\$ 9,491	\$ 9,067	\$ 8,992	\$ 8,147	\$ 7,236	\$ 6,547	\$ 6,724	\$ 5,923	\$ 7,416
Operating costs unallocated	3,189	3,081	3,937	3,907	3,791	3,253	2,853	2,766	2,438	3,452
Estimated incurred claims and claims expense, end of policy year	4,959	4,833	4,902	6,876	4,542	4,686	3,753	2,999	2,988	4,039
Paid (cumulative) as of:										
End of policy year	928	478	789	930	697	693	578	499	460	687
One year later	-	1,253	1,941	2,241	1,826	1,496	1,358	1,079	1,341	1,354
Two years later	-	-	3,534	3,831	2,889	2,940	2,450	1,804	2,574	2,528
Three years later	-	-	-	4,735	3,838	3,549	2,827	2,357	3,189	3,228
Four years later	-	-	-	-	4,271	4,000	3,085	2,745	3,602	3,604
Five years later	-	-	-	-	-	4,265	3,292	2,872	3,749	3,870
Six years later	-	-	-	-	-	-	3,416	2,657	3,803	4,002
Seven years later	-	-	-	-	-	-	-	2,671	3,840	4,042
Eight years later	-	-	-	-	-	-	-	-	3,890	4,064
Nine years later	-	-	-	-	-	-	-	-	-	4,076
Re-estimated incurred claims and claims expense:										
End of policy year	4,959	4,833	4,902	6,876	4,542	4,686	3,753	2,999	2,988	4,039
One year later	-	4,272	5,300	6,144	5,151	4,245	3,812	3,225	3,633	3,950
Two years later	-	-	5,338	6,069	4,697	4,613	3,854	3,062	3,917	4,065
Three years later	-	-	-	5,954	5,009	4,465	3,678	3,114	3,991	4,140
Four years later	-	-	-	-	4,939	4,478	3,548	3,228	4,007	4,281
Five years later	-	-	-	-	-	4,507	3,601	3,095	4,000	4,204
Six years later	-	-	-	-	-	-	3,624	2,855	3,961	4,276
Seven years later	-	-	-	-	-	-	-	2,773	4,022	4,187
Eight years later	-	-	-	-	-	-	-	-	3,975	4,212
Nine years later	-	-	-	-	-	-	-	-	-	4,148
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(561)	436	(922)	397	(179)	(129)	(226)	987	109

See accompanying independent auditors' report.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Officers and Trustees
Louisiana Municipal Risk Management Agency
Public Liability Fund

We have audited the financial statements of Louisiana Municipal Risk Management Agency – Public Liability Fund (the Fund), as of and for the year ended December 31, 2007, and have issued our report thereon dated June 6, 2008. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the following paragraphs to be significant deficiencies in internal control over financial reporting.

During the audit, we noted many of the accounts required adjustment to convert financial statements from the cash method of accounting to the accrual method of accounting. Accounts receivable and unearned premium had not been adjusted through revenue in order to appropriately reflect the accrual basis of the receivables/unearned premiums as well as the related revenue. Reinsurance receivables had to be recorded based upon subsequent receipt of funds. Additionally, related party expenses, including reinsurance expense, service agent fees and administrative fees had to be calculated, and adjusted along with the related liability.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Louisiana Municipal Risk Management Agency – Public Liability Fund and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 6, 2008

LOUISIANA MUNICIPAL ASSOCIATION

OFFICERS

President:
Clarence R. Fields
Mayor, Pineville

First Vice President:
Bill Robertson
Mayor, Minden

Second Vice President:
Susan Menard
Mayor, Cankton

Executive Director:
Tom Ed McHugh

Stephen J. Theriot
Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Sir,

In the Financial Statements for the Louisiana Municipal Risk Management Agency Workers' Compensation Fund, Public Liability Fund, and Reserve Fund, for the year ended December 31 2007, our auditors Postlethwaite & Netterville, noted a significant deficiency in internal control over our financial reporting in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The deficiency was described as follows:

During the audit, we noted many of the accounts required adjustment to convert financial statements from the cash method of accounting to the accrual method of accounting. Accounts receivable and unearned premium had not been adjusted through revenue in order to appropriately reflect the accrual basis of the receivables/unearned premiums as well as the related revenue. Reinsurance receivables had to be recorded based on subsequent receipt of funds. Additionally, related party expenses, including reinsurance expense, service agent fees and administrative fees had to be calculated, and adjusted along with the related liability.

When the audit results were presented to the Board of Directors at the June 11, 2008, meeting, this deficiency was noted. The deficiency does not result from any changes in the organization's financial controls or from any difference in our relationship with our auditors compared with past years. Nor does this deficiency result from any substandard performance by the staff. The deficiency noted is simply a result of changes in the auditing rules that first became effective in 2006.

The deficiency as noted will be eliminated by having the Chief Financial Officer of the Louisiana Municipal Association make the adjustments to the accounts receivable and unearned premium accounts to properly reflect the accrual basis of the receivables/unearned premiums as well as related revenue. New billing software has been

implemented to allow the Chief Financial Officer to make these adjustments on a timely basis. Reinsurance receivables will also be adjusted by the Chief Financial Officer.

Very truly yours,

A handwritten signature in black ink, appearing to read "Tom Ed", with a stylized flourish at the end.

Tom Ed McHugh
Executive Director
Louisiana Municipal Association

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2007

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2007

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Risk Management Agency
Workers' Compensation Fund
Baton Rouge, Louisiana

We have audited the accompanying statements of net assets of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 and the schedule of ten-year claims development information on page 17 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 6, 2008, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 6, 2008

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2007 and 2006. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2007 by \$27,835,437 compared to \$26,281,878 as of December 31, 2006, which is a 5.9% increase over the previous year.
- At December 31, 2007, the Fund's assets totaled \$39,233,518, which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables. At December 31, 2006 the Fund's assets totaled \$36,314,527 and were comprised of similar types of assets.
- The Fund reported gross earned premiums of \$7,489,978 and \$7,039,447 during the years ended December 31, 2007 and 2006, respectively, and an increase in net assets of \$1,553,589 and \$2,346,442 during the years ended December 31, 2007 and 2006, respectively.
- At the end of the current fiscal year, the Fund's net assets totaled \$27,835,467 or 2.4 times the Fund's liabilities. The Funds premiums earned during 2007, were approximately 27% of its net assets at December 31, 2007.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Assets include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all its costs through its premiums and investment income, profitability and credit worthiness. The final required basic financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

Overview of the Financial Statements (continued)

The preparation of these basic financial statements requires the utilization of significant estimates. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the Net Assets of the Fund and changes in them. Net Assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's Net Assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Assets at December 31,:

	<u>2007</u>	<u>2006</u>
Total assets	\$ 39,233,518	\$ 36,314,527
Total liabilities	<u>11,398,051</u>	<u>10,032,649</u>
Net assets	<u>\$ 27,835,467</u>	<u>\$ 26,281,878</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 8% and consist primarily of U.S. Government investments and securities. Total liabilities increased approximately 14% mainly due to increases in unpaid claims liabilities. Net assets increased approximately 6% from the prior year.

Condensed Statements of Revenues and Expenses and Changes in Net Assets for the Years Ended December 31,:

	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 7,489,978	\$ 7,039,447
Operating expenses	<u>8,547,782</u>	<u>6,082,641</u>
Operating income (loss)	(1,057,804)	956,806
Non-operating income	<u>2,611,393</u>	<u>1,389,636</u>
Change in net assets	<u>\$ 1,553,589</u>	<u>\$ 2,346,442</u>

Financial Analysis of the Fund (continued)

Premium revenues increased \$450,531 or 6.4% due primarily to increased premium rates upon renewals. During the year ended December 31, 2007, the Fund reported premium income of \$7,489,978 and non-operating investment income of \$2,611,393. Investment income increased in 2007 compared to 2006 largely due to favorable unrealized gains on changes in estimated fair values of the investment portfolio. During 2007, the Fund reported total expenses of \$8,547,782, which consisted primarily of claims, administrative and service agent fees and excess insurance premiums. Total expenses increased \$2,465,141 or 40.5% compared to the prior year due primarily to increased claim and related expense costs attributable to unfavorable claims development occurring in 2007 related to prior years' claims.

The Fund's increase in net assets during 2007 was \$792,853 than the prior year as a result of an increase in premium revenue and investment income being offset by increases in claims expenses. The Fund reported a net increase in net assets in the amount of \$1,553,589 for the current year. See Statements of Revenues, Expenses and Changes in Net Assets on page 6 of this report.

Financial Outlook

The Fund anticipates a modest increase in membership during the next fiscal year. However, total premiums earned are not expected to increase significantly. Management emphasizes that the Fund's expenses are greatly impacted by claims losses and claims related expenses which are influenced by factors beyond management's control, including the rate of medical inflation, judicial rulings, and legislative changes.

Requests for Information

This financial report is designed to provide our members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency - Workers' Compensation Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Investments (note 4)	\$ 36,132,980	\$ 33,996,034
Accounts receivable, net	2,493,883	1,835,994
Reinsurance receivable (note 3)	275,647	114,347
Accrued interest receivable	<u>331,008</u>	<u>368,152</u>
	<u>\$ 39,233,518</u>	<u>\$ 36,314,527</u>

LIABILITIES AND NET ASSETS

Liabilities:

Unpaid claims liability (note 3)	\$ 8,374,000	\$ 7,126,000
Unearned premiums	711,826	759,750
Due to affiliates - (note 2)	983,837	975,367
Accounts payable and accrued expenses	<u>1,328,388</u>	<u>1,171,532</u>
	11,398,051	10,032,649
Net assets	<u>27,835,467</u>	<u>26,281,878</u>
	<u>\$ 39,233,518</u>	<u>\$ 36,314,527</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 7,489,978	\$ 7,039,447
Total operating revenues	<u>7,489,978</u>	<u>7,039,447</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	5,596,881	3,609,148
Administrative fees (note 2)	988,169	904,437
Service agent fees (note 2)	808,502	739,994
Reinsurance premiums (note 2)	651,293	596,106
Second Injury Fund assessment	342,834	100,012
Office of Workers' Compensation assessment	87,070	79,245
Other	<u>73,033</u>	<u>53,699</u>
Total operating expenses	<u>8,547,782</u>	<u>6,082,641</u>
<u>OPERATING INCOME (LOSS)</u>	(1,057,804)	956,806
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	<u>2,611,393</u>	<u>1,389,636</u>
<u>CHANGE IN NET ASSETS</u>	1,553,589	2,346,442
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>26,281,878</u>	<u>23,935,436</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 27,835,467</u>	<u>\$ 26,281,878</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Operating income (loss)	\$ (1,057,804)	\$ 956,806
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operations:		
Change in receivables and reinsurance receivable	(819,189)	948,068
Change in unpaid claims liability	1,248,000	(109,000)
Change in accounts payable, accrued expenses, unearned premiums and due to affiliates	<u>117,402</u>	<u>(858,296)</u>
Net cash provided by (used in) operating activities	<u>(511,591)</u>	<u>937,578</u>
Cash flows from investing activities:		
Investment income received	1,827,594	1,726,380
Purchases of investments	(19,334,811)	(9,431,889)
Proceeds from sales and maturities of investments	<u>18,018,808</u>	<u>6,767,931</u>
Net cash provided by (used in) investing activities	<u>511,591</u>	<u>(937,578)</u>
Net change in cash	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Background and Financial Statement Presentation*

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The LMRMA-Workers' Compensation Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund, after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2007 and 2006, there were 209 and 211 participating municipalities, respectively.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for LMRMA.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of LMRFA is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Workers' Compensation Fund.

The various LMRMA and LMRFA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net assets are available only to each individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and 14.

(b) *Basis of Accounting*

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(c) ***Investments***

Investments are reported at estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include money market accounts, repurchase agreements and U.S. Government Agency and Treasury obligations.

(d) ***Premium Income and Accounts Receivable***

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known. Acquisition costs associated with new and renewal contracts are immaterial to the financial statements and are expensed when incurred.

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(e) ***Operating / Non-Operating Revenue and Expenses***

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(f) Unpaid Claims Liability

The Fund provides workers' compensation coverage to members for claims incurred during the policy period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements.

(g) Statement of Cash Flows

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments.

(h) Excess Reinsurance

The Fund uses excess reinsurance agreements to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as the direct insurer of the insured risks. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

(i) Income Taxes

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

(j) Insurance Related Assessments

The Fund is subject to assessments made by the Second Injury Fund and the Office of Workers' Compensation based on benefits paid each year. The Fund recognizes these assessments as expense when related claim benefits are incurred rather than paid. Changes in accruals for insurance related assessments are adjusted in the year assessment rate changes and claims estimates are made.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(k) *Use of Estimates*

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

(l) *Reclassifications*

Certain items in the 2006 financial statements have been reclassified to be comparative to the 2007 presentation.

2. **RELATED PARTY TRANSACTIONS**

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the earned standard premiums (ESP). The respective percentages of the respective earned standard premiums (ESP) as follows:

	<u>2007</u>	<u>2006</u>
Expenses (and current fee structure):		
Administrative fees - LMA (11.0% of ESP)	\$ 988,169	\$ 904,437
Service agent fees - RMI (9.0% of ESP)	\$ 808,502	\$ 739,994
Reinsurance - LMRFA (7.25% of ESP)	\$ 651,293	\$ 596,106
 Reinsurance recoveries from LMRFA	 \$ 570,693	 \$ 412,246
 Due to affiliate:		
LMA	\$ 688,169	\$ 604,437
RMI	181,376	199,478
LMRFA	114,292	171,452
	<u>\$ 983,837</u>	<u>\$ 975,367</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 13,158	\$ 13,115
Less: reinsurance recoverables	<u>6,032</u>	<u>5,880</u>
Liability for unpaid losses at beginning of year, net	<u>7,126</u>	<u>7,235</u>
Net incurred related to:		
Current year	4,411	3,259
Prior years	<u>1,186</u>	<u>350</u>
Total incurred	<u>5,597</u>	<u>3,609</u>
Net paid related to:		
Current year	1,172	953
Prior years	<u>3,177</u>	<u>2,765</u>
Total paid	<u>4,349</u>	<u>3,718</u>
Liability for unpaid losses at end of year, gross	15,613	13,158
Less: reinsurance recoverables	<u>7,239</u>	<u>6,032</u>
Liability for unpaid losses at end of year, net	<u>\$ 8,374</u>	<u>\$ 7,126</u>

In addition to the unpaid claims covered by the reinsurers, there are \$275,647 and \$114,347 of paid claims which are recoverable from the reinsurer at December 31, 2007 and 2006, respectively.

During 2007 and 2006, the Fund experienced overall unfavorable development on unpaid claims liabilities established in prior years, including the impact of decreasing the rate to discount loss reserves. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2007 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2007 will not vary from the above estimates, and such difference could be significant.

The Fund's claims payable have been discounted for December 31, 2007 and 2006, based on the Fund's anticipated payout patterns and a discount rate assumption of 5.0% and 5.25%, respectively which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$1,411,000 and \$1,241,000 at December 31, 2007 and 2006, respectively.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2007 and 2006.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements. The Fund's policy is to wire-transfer cash as needed from investments to support disbursements. Consequently, a zero cash balance is maintained.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Funds exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2007 and 2006:

<u>Investment Type</u>	<u>2007</u>		<u>2006</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage backed and Agency obligations	\$ 15,950,338	\$ 15,765,433	\$ 11,915,751	\$ 12,048,757
Money market funds	2,824,656	2,824,656	3,022,511	3,022,511
U.S. Treasury bonds and notes	<u>17,357,986</u>	<u>16,882,177</u>	<u>19,057,772</u>	<u>19,409,224</u>
TOTAL	<u>\$ 36,132,980</u>	<u>\$ 35,472,266</u>	<u>\$ 33,996,034</u>	<u>\$ 34,480,492</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. **DEPOSITS AND INVESTMENTS** (continued)

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a good tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated.

The following table is provided for use in assessing the Funds exposure to credit risk as of December 31, 2007 and 2006.

Standard and Poor's Rating	Estimated Fair Value 2007	Estimated Fair Value 2006
U.S. Treasury securities	\$ 2,824,656	\$ 3,022,511
U.S. Government securities and money market –		
Not rated	10,587,038	8,354,147
Rated AAA	<u>22,721,286</u>	<u>22,619,376</u>
Total	<u>\$ 36,132,980</u>	<u>\$ 33,996,034</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2007:

<u>INVESTMENT</u> <u>TYPE</u>	<u>Estimated</u> <u>Fair Value</u>	<u>INVESTMENT MATURITIES (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>Greater than 10</u>
Money market funds	\$ 2,824,656	\$ 2,824,656	\$ -	\$ -	\$ -
U.S. Government mortgage backed	10,587,038	-	983,125	6,308,040	3,295,873
U.S. Government Agencies	5,363,300	1,611,087	2,124,023	1,628,190	-
U.S. Treasury bonds and notes	<u>17,357,986</u>	<u>3,706,998</u>	<u>8,105,541</u>	<u>5,545,447</u>	<u>-</u>
TOTAL	<u>\$ 36,132,980</u>	<u>\$ 8,142,741</u>	<u>\$ 11,212,689</u>	<u>\$ 13,481,677</u>	<u>\$ 3,295,873</u>

Investment income for the years ended December 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Interest income	\$ 1,721,108	\$ 1,577,576
Realized losses, net	(254,885)	(89,904)
Unrealized gains/(losses) arising during the year	<u>1,145,170</u>	<u>(98,036)</u>
	<u>\$ 2,611,393</u>	<u>\$ 1,389,636</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment on deposit. There were no direct investments in foreign fixed-income securities.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

During the years ended December 31, 2007 and 2006, LMRFA provided excess reinsurance to the Fund with the following limits:

- Item I: \$2,000,000 annual aggregate in excess of 80% of earned normal premium
- Item II: \$2,000,000 each and every loss in excess of \$175,000 each and every loss

The Fund and LMRFA represent a cooperative program for group funding and risk management of public liability, workers' compensation and accident and health claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claim obligations remains with the participants.

The following are condensed Statements of Net Assets for LMRFA at December 31, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Assets	\$ 41,849,955	\$ 41,263,666
Liabilities	<u>20,058,528</u>	<u>19,815,298</u>
Net assets	<u>\$ 21,791,427</u>	<u>\$ 21,448,368</u>

SUPPLEMENTAL INFORMATION

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
CLAIMS EXPENSE AND RE-ESTIMATED CLAIM ADJUSTMENT EXPENSE**

DECEMBER 31, 2007

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 2007 and as of the end of each of the last nine years.

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
	(in thousands)									
ENP and investment income	\$ 10,101	\$ 8,429	\$ 7,160	\$ 6,059	\$ 5,590	\$ 6,811	\$ 5,566	\$ 5,801	\$ 4,369	\$ 8,896
Operating costs, unallocated	2,951	2,473	1,987	1,963	2,347	1,693	1,452	1,445	1,502	3,327
Estimated incurred claims and expense, end of policy year	4,712	3,577	3,898	4,032	3,589	2,146	1,700	2,184	1,473	4,621
Paid (cumulative) as of:										
End of policy year	1,172	953	964	1,051	1,076	643	499	716	463	469
One year later	-	2,186	2,061	2,240	2,074	1,533	1,093	1,475	1,074	1,067
Two years later	-	-	2,696	2,685	2,502	2,195	1,358	1,965	1,424	1,459
Three years later	-	-	-	3,188	2,845	2,731	1,480	2,089	1,499	1,541
Four years later	-	-	-	-	2,909	2,881	1,530	2,281	1,625	1,654
Five years later	-	-	-	-	-	3,171	1,638	2,366	1,831	1,790
Six years later	-	-	-	-	-	-	1,689	2,441	1,911	1,863
Seven years later	-	-	-	-	-	-	-	2,612	1,942	1,929
Eight years later	-	-	-	-	-	-	-	-	2,045	2,027
Nine years later	-	-	-	-	-	-	-	-	-	2,125
Re-estimated incurred claims and claims expense:										
End of policy year	4,712	3,577	3,898	4,032	3,589	2,146	1,700	2,184	1,473	4,621
One year later	-	3,967	3,746	4,266	3,781	2,554	1,760	2,821	1,638	1,811
Two years later	-	-	3,934	3,994	3,556	3,049	1,874	2,606	1,792	2,078
Three years later	-	-	-	4,130	3,690	3,310	1,933	2,600	1,884	2,051
Four years later	-	-	-	-	3,565	3,348	1,876	2,746	1,956	2,005
Five years later	-	-	-	-	-	3,481	1,871	2,668	2,095	2,123
Six years later	-	-	-	-	-	-	1,892	2,659	2,104	2,182
Seven years later	-	-	-	-	-	-	-	3,047	2,116	2,212
Eight years later	-	-	-	-	-	-	-	-	1,948	2,189
Nine years later	-	-	-	-	-	-	-	-	-	2,245
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	390	36	98	(24)	1,335	192	863	475	(2,376)

See accompanying independent auditors' report.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Officers and Trustees
Louisiana Municipal Risk Management Agency
Workers' Compensation Fund

We have audited the financial statements of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund (the Fund), as of and for the year ended December 31, 2007, and have issued our report thereon dated June 6, 2008. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record or process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the following paragraph to be a significant deficiency in internal control over financial reporting.

During the audit, we noted many of the accounts required adjustment to convert financial statements from the cash method of accounting to the accrual method of accounting. Accounts receivable and unearned premium had not been adjusted through revenue in order to appropriately reflect the accrual basis of the receivables/unearned premiums as well as the related revenue. Reinsurance receivables had to be recorded based upon subsequent receipt of funds. Additionally, related party expenses, including reinsurance expense, service agent fees and administrative fees had to be calculated, and adjusted along with the related liability.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Louisiana Municipal Risk Management Agency - Workers' Compensation Fund and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 6, 2008

LOUISIANA MUNICIPAL ASSOCIATION

OFFICERS

President:
Clarence A. Fields
Mayor, Pineville

First Vice President:
Bill Robertson
Mayor, Minden

Second Vice President:
Susan Menard
Mayor, Cankton

Executive Director:
Tom Ed McHugh

Stephen J. Theriot
Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Sir,

In the Financial Statements for the Louisiana Municipal Risk Management Agency Workers' Compensation Fund, Public Liability Fund, and Reserve Fund, for the year ended December 31 2007, our auditors Postlethwaite & Netterville, noted a significant deficiency in internal control over our financial reporting in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The deficiency was described as follows:

During the audit, we noted many of the accounts required adjustment to convert financial statements from the cash method of accounting to the accrual method of accounting. Accounts receivable and unearned premium had not been adjusted through revenue in order to appropriately reflect the accrual basis of the receivables/unearned premiums as well as the related revenue. Reinsurance receivables had to be recorded based on subsequent receipt of funds. Additionally, related party expenses, including reinsurance expense, service agent fees and administrative fees had to be calculated, and adjusted along with the related liability.

When the audit results were presented to the Board of Directors at the June 11, 2008, meeting, this deficiency was noted. The deficiency does not result from any changes in the organization's financial controls or from any difference in our relationship with our auditors compared with past years. Nor does this deficiency result from any substandard performance by the staff. The deficiency noted is simply a result of changes in the auditing rules that first became effective in 2006.

The deficiency as noted will be eliminated by having the Chief Financial Officer of the Louisiana Municipal Association make the adjustments to the accounts receivable and unearned premium accounts to properly reflect the accrual basis of the receivables/unearned premiums as well as related revenue. New billing software has been

implemented to allow the Chief Financial Officer to make these adjustments on a timely basis. Reinsurance receivables will also be adjusted by the Chief Financial Officer.

Very truly yours,

A handwritten signature in black ink, appearing to read "Tom Ed", followed by a stylized flourish or surname.

Tom Ed McHugh
Executive Director
Louisiana Municipal Association

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2007

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2007

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Risk Management Agency
Accident and Health Fund
Baton Rouge, Louisiana

We have audited the accompanying statements of net assets of Louisiana Municipal Risk Management Agency – Accident and Health Fund (a quasi-public organization) (the Fund) as of December 31, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 6, 2008, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 6, 2008

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Accident and Health Fund (the Fund) presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2007 and 2006. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2007 by \$5,346 compared to the Funds liabilities exceeding its assets by of \$943,579 as of December 31, 2006.
- At December 31, 2007, the Fund's assets totaled \$1,809,821, which consisted primarily of cash and receivables, as compared to a balance of \$960,506 at December 31, 2006.
- The Fund reported gross premiums earned of \$11,356,002 and \$10,243,873 during the years ended December 31, 2007 and 2006, respectively.
- The Fund reported an increase in net assets of \$948,925 during the year ended December 31, 2007 compared to an increase in net assets of \$256,349 during the year ended December 31, 2006.
- At the end of the current fiscal year, the Fund had net assets surplus of \$5,346 and a \$943,579 deficit at December 31, 2007, and 2006, respectively.
- The Fund has reduced its deficit by \$1,351,239 over the last three years by implementing premium rate increases and benefit reductions exceeding projected medical inflation and utilization.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by the private sector. The Statements of Net Assets include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Fund's operations over the year and can be used to determine profitability, credit worthiness, and whether the Fund has successfully recovered all its costs through its premium and investment income. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

Overview of the Financial Statements (continued)

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statements of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net assets of the Fund and changes in it. Net assets (deficit) (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net assets (deficit) are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Assets

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Total assets	\$ 1,809,821	\$ 960,506
Total liabilities	<u>1,804,475</u>	<u>1,904,085</u>
Net assets / (deficit)	<u>\$ 5,346</u>	<u>\$ (943,579)</u>

At December 31, 2007, the Fund's assets represent approximately 100% of the Fund's estimated liabilities. The Fund's total liabilities consist primarily of estimated claims payable, which decreased approximately 6% due to decreased claims experience. If necessary, the Fund can rely on a borrowing arrangement with an affiliate to meet its current obligations.

If the Fund is unable to meet its obligations as they become due and a managed shut down is not successful, participating members would become responsible for their respective outstanding claims obligations. The Board of the LMA established a plan to bear the responsibility for costs related to any shut down process.

Condensed Statements of Revenues and Expenses and Changes in Net Assets for the Years Ended December 31:

	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 11,356,002	\$ 10,243,873
Operating expenses	<u>10,444,281</u>	<u>10,029,563</u>
Operating income	911,721	214,310
Non-operating income	<u>37,204</u>	<u>42,039</u>
Change in net assets	<u>\$ 948,925</u>	<u>\$ 256,349</u>

Financial Analysis of the Fund (continued)

The Fund experienced an excess of revenues over expenses in the amount of \$948,925 for the current year resulting from increased premium rates and increased participants. (See Statements of Revenues, Expenses and Changes in Net Assets on page 6 of this report). During the year ended December 31, 2007, the fund reported premium income of \$11,356,002 and investment income of \$37,204, which reflected increased premium rates to its members and slightly increased participants. The Fund reported total expenses of \$10,444,281, which consisted primarily of claims expense, excess insurance and service agent expenses. Claims expense incurred during the year ended December 31, 2007 represented 80% of premium income, which is improved when compared to the 2006 claims ratio of 87%.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency – Accident and Health Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Cash (note 4)	\$ 1,373,952	\$ 666,292
Accounts receivable, net	279,328	140,738
Reinsurance receivable	<u>156,541</u>	<u>153,476</u>
	<u>\$ 1,809,821</u>	<u>\$ 960,506</u>

LIABILITIES AND NET ASSET DEFICIT

Liabilities:		
Unpaid claims liability (note 3)	\$ 1,437,000	\$ 1,693,000
Accounts payable and other liabilities	262,433	119,169
Due to affiliates (note 2)	<u>105,042</u>	<u>91,916</u>
Total liabilities	1,804,475	1,904,085
Net assets surplus/(deficit)	<u>5,346</u>	<u>(943,579)</u>
	<u>\$ 1,809,821</u>	<u>\$ 960,506</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 11,356,002	\$ 10,243,873
Total operating revenues	<u>11,356,002</u>	<u>10,243,873</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	9,128,180	8,934,402
Reinsurance premiums and commission (note 2)	714,246	511,475
Service agent fees (note 2)	574,228	562,183
Administrative fees (note 2)	12,773	12,766
Miscellaneous	<u>14,854</u>	<u>8,737</u>
Total operating expenses	<u>10,444,281</u>	<u>10,029,563</u>
<u>OPERATING INCOME</u>	911,721	214,310
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	<u>37,204</u>	<u>42,039</u>
<u>CHANGE IN NET ASSETS</u>	948,925	256,349
NET ASSETS DEFICIT- BEGINNING OF YEAR	<u>(943,579)</u>	<u>(1,199,928)</u>
NET ASSETS SURPLUS/(DEFICIT) - END OF YEAR	<u>\$ 5,346</u>	<u>\$ (943,579)</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Operating income	\$ 911,721	\$ 214,310
Adjustments to reconcile operating income to net cash provided by operations:		
Change in reinsurance receivable	(3,065)	(103,970)
Change in receivables	(138,590)	(6,694)
Change in unpaid claims liability	(256,000)	296,000
Change in accounts payable and other liabilities	143,264	4,263
Net cash provided by operating activities	<u>657,330</u>	<u>403,909</u>
Cash flows from investing activities:		
Investment interest received	<u>37,204</u>	<u>42,039</u>
Net cash provided by investing activities	<u>37,204</u>	<u>42,039</u>
Cash flows from financing activities:		
Change in due to affiliates	<u>13,126</u>	<u>(439,887)</u>
Net cash provided by (used in) financing activities	<u>13,126</u>	<u>(439,887)</u>
Net change in cash	707,660	6,061
Cash, beginning of year	<u>666,292</u>	<u>660,231</u>
Cash, end of year	<u>\$ 1,373,952</u>	<u>\$ 666,292</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Background and Financial Statement Presentation*

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The Accident and Health Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. Effective January 1, 2003, LMRFA began providing reinsurance for the Fund.

As of December 31, 2007 and 2006, there were 56 and 58 participating municipalities with a total number of participants of 2,593 and 2,357, respectively.

The various LMRMA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net assets are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 14.

(b) *Basis of Accounting*

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.

Since the business of the Fund is essentially that of an insurance company, having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Premium Income and Accounts Receivable*

Premiums are recognized as income over the term of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known.

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(d) *Operating / Non-Operating Revenue and Expense*

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses, which are ancillary to the Fund's statutory purpose, are classified as non-operating.

(e) *Unpaid Claims Liability*

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expenses in the period in which they are made. The carrying amount of liabilities for claims losses and claims expenses is presented at the estimated claims amounts in the financial statements.

(f) *Cash and Cash Equivalents*

For the purposes of the statements of cash flows, cash includes amounts in demand deposit accounts with banks, and money markets and repurchase agreements, which are usually purchased with maturities of 90 days or less or are reinvested continuously.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Excess Reinsurance*

The Fund uses excess reinsurance to reduce its exposure to large losses on insured events. Further description of the reinsurance coverage is described in Note 5. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Claims expense consists of claims incurred during the current year, adjustments to the accounting estimate of prior years' claims expense and a reduction for claims covered by the reinsurer in accordance with the reinsurance policy. Reinsurance receivable represents claims paid in excess of excess retention. The Fund considers reinsurance receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established.

(h) *Income Taxes*

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

(i) *Use of Estimates*

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

(j) *Reclassifications*

Certain items in the 2006 financial statements have been reclassified to be comparative to the 2007 presentation.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

2. RELATED PARTY TRANSACTIONS

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees incurred by the Fund for these services and related balances owed are as follows:

	<u>2007</u>	<u>2006</u>
Expenses and current fee structure:		
Administrative fees – LMA (\$.60 per person per month)	\$ <u>12,773</u>	\$ <u>12,766</u>
Service agent fees – RMI (\$26.45 in 2007; \$25.95 in 2006 for health and \$1.20 for dental participant in 2007 and 2006)	\$ <u>574,228</u>	\$ <u>562,183</u>
Reinsurance premium expense – LMRFA (\$28.32 in 2007; \$18.81 in 2006 per person for health participants)	\$ <u>605,453</u>	\$ <u>400,202</u>
Reinsurance commission – RMI (\$5.23 in 2007 and 2006 per health participant)	\$ <u>108,793</u>	\$ <u>111,273</u>
Due to affiliates:		
LMA	\$ 1,030	\$ 1,080
RMI	<u>104,012</u>	<u>90,836</u>
	<u>\$ 105,042</u>	<u>\$ 91,916</u>

The Board of Trustees has authorized up to \$500,000 in borrowings, which are unsecured and non-interest bearing from the LMRFA. As of December 31, 2007 and 2006, there are no amounts drawn on this line of credit.

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31:

	<u>2007</u>	<u>2006</u>
	(Amounts in thousands)	
Unpaid claims and claims adjustment expenses liability at beginning of year	\$ 1,693	\$ 1,397
Incurred claims and claims adjustment expense-provision for insured events	9,128	8,934
Less payments – claims and claims adjustment expenses	<u>(9,384)</u>	<u>(8,638)</u>
Unpaid claims and claims adjustment expenses liability, end of year	\$ <u>1,437</u>	\$ <u>1,693</u>

Settled claims have not exceeded aggregate insurance coverages in any of the past two fiscal years.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these funds shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions as of and during the years ended December 31, 2007 and 2006.

All demand deposits and certificates of deposit are insured or collateralized by pledged securities held by an agent in the name of the Fund.

	<u>2007</u>	<u>2006</u>
Insured	\$ 100,000	\$ 100,000
Uninsured	<u>1,289,363</u>	<u>572,062</u>
	<u>\$ 1,389,363</u>	<u>\$ 672,062</u>

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions.

Net investment income for the years ended December 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Interest income	<u>\$ 37,204</u>	<u>\$ 42,039</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

The Fund and its excess reinsurer represent a cooperative program for group funding and risk management of accident and health claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, the ultimate liability for claims remains with the members/participants, and the Fund has the authority to assess the members/participants to fund any deficits incurred.

Since January 1, 2003, the Fund has obtained reinsurance from LMRFA to provide the following coverage:

Item I: Annual aggregate in excess of 125% of annual earned normal premium.

Item II: \$900,000 specific losses in excess of \$100,000 each and every loss.

Amounts paid to LMRFA for reinsurance were obtained at a discounted rate compared to what was provided by a commercial insurer in prior years. See Note 2 for details on amounts paid to LMRFA for reinsurance coverage.

6. RISKS AND UNCERTAINTIES

The Fund's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Fund as a going concern. At December 31, 2007, the Fund reported net assets of \$5,346.

The Board of Trustees has established a \$500,000 limit in which the Fund could borrow operating funds from LMRFA. In a special meeting on March 17, 2004, the Board established the maximum borrowings as a trigger to initiate an orderly shutdown of the Fund. Any such shutdown process is expected to require funding from LMA in order to pay all unreported liabilities so that participating municipalities would not be subjected to a loss or assessment under the program. As of December 31, 2007 and 2006, the Fund has repaid all of funds borrowed from LMRFA, however the Fund is dependent on this borrowing commitment should the Fund experience an adverse liquidity or cash flow conditions.

The Fund has continued to implement premium rate increases and benefit reductions each year in order to meet the continued increase in claims cost and medical inflation. Management continues to implemented premium rate increases and member benefits reductions which have reduced the Fund deficit by \$1.3 million over the last three years. Management expects that continued premium increases and reductions in covered benefits will be implemented sufficient for the Fund to continue to remain viable. However, no assurances can be given that the Fund can maintain profitability and improve cash flows or that the net assets can be maintained in a manageable period of time.

If the Fund is unable to meet its obligations as they become due and a managed shut down is not successful, participating members would become responsible for their respective outstanding claims obligations. The Board of the LMA established a plan to bear the responsibility for costs related to any shut down process.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Officers and Trustees
Louisiana Municipal Risk Management Agency
Accident and Health Fund
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Municipal Risk Management Agency – Accident and Health Fund (the Fund), as of and for the year ended December 31, 2007, and have issued our report thereon dated June 6, 2008. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record or process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Louisiana Municipal Risk Management Agency – Accident and Health Fund and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 6, 2008

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2007

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2007

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Association
Unemployment Compensation Fund
Baton Rouge, Louisiana

We have audited the accompanying statements of net assets of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 6, 2008, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 6, 2008

LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Association - Unemployment Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2007 and 2006. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2007 by \$3,777,765 compared to \$3,399,972 as of December 31, 2006, which is a 11.1% increase from the previous year.
- At December 31, 2007 and 2006, the Fund's assets totaled \$4,016,837 and \$3,685,389, respectively, which consisted primarily of cash and investments.
- The Fund reported premiums earned of \$264,315 and \$263,062 during the years ended December 31, 2007 and 2006, respectively, and an increase in net assets of \$377,793 in 2007 compared to an increase in net assets of \$112,241 during 2006.
- Investment income was \$291,881 during 2007 compared to \$140,881 during 2006. The increase of 107% is attributable primarily to realized and unrealized gains on securities held by the Fund in 2007 with more favorable market performance during 2007 in the bond markets as compared to 2006.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Assets includes all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). These statements provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all its costs through its premium and investment income, profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

Overview of the Financial Statements (continued)

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net assets of the Fund and changes in them. The net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, judicial environment, and new or changed government legislation.

Condensed Statements of Net Assets

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Total assets	\$ 4,016,837	\$ 3,685,389
Total liabilities	<u>239,072</u>	<u>285,417</u>
Net assets	<u>\$ 3,777,765</u>	<u>\$ 3,399,972</u>

The Fund's total assets consist almost entirely of investments in U.S. Treasury and Agency securities and cash equivalents. The Fund's liabilities consist of estimated benefits and related administration costs payable at year end.

Condensed Statements of Revenues and Expenses and Changes in Net Assets for the Years Ended December 31,:

	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 264,315	\$ 263,062
Operating expenses	<u>178,403</u>	<u>291,702</u>
Operating income/(loss)	85,912	(28,640)
Non-operating income	<u>291,881</u>	<u>140,881</u>
Change in net assets	<u>\$ 377,793</u>	<u>\$ 112,241</u>

Financial Analysis of the Fund (continued)

Operating revenues remained relatively consistent from the years ended December 31, 2007 and 2006. Total expenses decreased \$113,299 or 39% compared to 2006 due primarily to decreased claims compared to the prior year. Claims expense decreased in 2007 compared to prior year increases in benefits claims related to Hurricanes Katrina and Rita in August and September, 2005 while claims expenses have returned to their normal level in 2007. As of December 31, 2007, a large portion of the claims payable related to these events are still outstanding. Additionally during 2007, investment income increased due to positive market performance. The Fund's net assets for 2007 increased 11.1% primarily as a result of decreased claims and increased investment income.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Association – Unemployment Compensation Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Cash (note 2)	\$ 47,121	\$ 3,887
Investments (note 2)	3,856,863	3,563,254
Accounts receivable	68,864	71,250
Accrued interest receivable	<u>43,989</u>	<u>46,998</u>
	<u>\$ 4,016,837</u>	<u>\$ 3,685,389</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Unpaid claims liability (note 3)	\$ 100,000	\$ 100,000
Accrued expenses	<u>139,072</u>	<u>185,417</u>
	239,072	285,417
Net assets	<u>3,777,765</u>	<u>3,399,972</u>
	<u>\$ 4,016,837</u>	<u>\$ 3,685,389</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 264,315	\$ 263,062
Total operating revenues	<u>264,315</u>	<u>263,062</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	130,407	246,269
Service agent fees	37,377	38,311
Miscellaneous	10,619	7,122
Total operating expenses	<u>178,403</u>	<u>291,702</u>
<u>OPERATING INCOME (LOSS)</u>	85,912	(28,640)
<u>NON-OPERATING INCOME</u>		
Investment income	<u>291,881</u>	<u>140,881</u>
<u>CHANGE IN NET ASSETS</u>	377,793	112,241
NET ASSETS - BEGINNING OF YEAR	<u>3,399,972</u>	<u>3,287,731</u>
NET ASSETS - END OF YEAR	<u>\$ 3,777,765</u>	<u>\$ 3,399,972</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Operating income (loss)	\$ 85,912	\$ (28,640)
Adjustments to reconcile operating income (loss)		
to net cash provided by (used in) operations:		
Changes in operating assets and liabilities:		
Accounts receivable	2,386	(2,319)
Accrued expenses	(46,345)	(49,950)
Net cash provided by (used in) operating activities	<u>41,953</u>	<u>(80,909)</u>
Cash flows from investing activities:		
Purchases of investments	(1,242,836)	(2,207,736)
Proceeds from sale or maturity of investments	1,046,240	2,024,773
Interest income received	<u>197,877</u>	<u>183,907</u>
Net cash provided by investing activities	<u>1,281</u>	<u>944</u>
Net change in cash	43,234	(79,965)
Cash, beginning of year	<u>3,887</u>	<u>83,852</u>
Cash, end of year	<u><u>\$ 47,121</u></u>	<u><u>\$ 3,887</u></u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Financial Statement Presentation

Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) was formed under Louisiana Revised Statutes 23:1552. The Fund consists of Louisiana municipalities joined together in self-insurance agreements with respect to unemployment compensation fund insurance. Administration of the Fund is vested in the Executive Board of the Louisiana Municipal Association (LMA).

LMA is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

As of December 31, 2007, there were approximately 6,133 participants and 142 participating municipalities. As of December 31, 2006, there were approximately 6,290 participants and 144 participating municipalities.

The Fund and LMA are affiliated through common membership and management control. Although both of these entities are related parties, their net assets are available only to the individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity.

(b) Basis of Accounting

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

(c) Cash and Cash Flows

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more or are reinvested continuously, they are classified as investments.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(d) ***Investments***

Investments are reported at estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include money market accounts, repurchase agreements, U.S. Government Agency obligations and U.S. Treasury securities and are held for long-term purposes.

(e) ***Unpaid Claims Liability***

Claims expense consists of estimated amounts for claims incurred during the current year and adjustments to the estimates of prior years' claims liability. These changes are reflected in operations in the period they become known. The Fund establishes claim liabilities based on estimates of the ultimate cost of claims that have been reported, but not yet settled.

(f) ***Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

(g) ***Premium Income and Accounts Receivable***

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the period they become known.

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts or deductibles become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(h) ***Use of Estimates***

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 2007 and 2006.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Funds exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31,:

<u>Investment Type</u>	<u>2007</u>		<u>2006</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage-backed and Agency obligations	\$ 1,255,480	\$ 1,230,760	\$ 932,246	\$ 937,249
Short term investments	161,110	161,110	97,632	97,632
U.S. Treasury bonds and notes	<u>2,440,273</u>	<u>2,375,746</u>	<u>2,533,376</u>	<u>2,574,872</u>
TOTAL	<u>\$ 3,856,863</u>	<u>\$ 3,767,616</u>	<u>\$ 3,563,254</u>	<u>\$ 3,609,753</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS (continued)

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a good tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk at December 31,:

	Estimated Fair Value 2007	Estimated Fair Value 2006
Standard and Poor's Rating		
U.S Treasury securities	\$ 2,440,273	\$ 2,533,376
U.S Government securities and		
Money market:		
Not Rated	934,187	661,348
Rated AAA	482,403	368,530
Total	<u>\$ 3,856,863</u>	<u>\$ 3,563,254</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2007:

<u>INVESTMENT TYPE</u>	<u>INVESTMENT MATURITIES (in years)</u>				
	Estimated Fair Value	Less than 1	1-5	5-10	Greater than 10
Money market funds	\$ 161,110	\$ 161,110	\$ -	\$ -	\$ -
U.S. Government Agencies	582,296	24,957	468,839	88,500	-
U.S. Government mortgage-backed	673,184	-	83,281	386,229	203,674
U.S. Treasury bonds and notes	<u>2,440,273</u>	<u>279,389</u>	<u>1,517,142</u>	<u>643,742</u>	<u>-</u>
TOTAL	<u>\$ 3,856,863</u>	<u>\$ 465,456</u>	<u>\$ 2,069,262</u>	<u>\$ 1,118,471</u>	<u>\$ 203,674</u>

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. **DEPOSITS AND INVESTMENTS** (continued)

Investment income for the years ended December 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Interest income	\$ 177,119	\$ 163,426
Net realized gain (loss)	(20,984)	(16,581)
Unrealized gain (loss) arising during the year	<u>135,746</u>	<u>(5,964)</u>
	<u>\$ 291,881</u>	<u>\$ 140,881</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment on deposit. There were no direct investments in foreign fixed-income securities.

3. **CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liability for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
	(in thousands)	
Unpaid claims and claims adjustment expenses liability at beginning of year	<u>\$ 100</u>	<u>\$ 100</u>
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current year	<u>130</u>	<u>246</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of current year	30	146
Claims and claim adjustment expenses attributable to insured events of prior years	<u>100</u>	<u>100</u>
Total payments	<u>130</u>	<u>246</u>
Total unpaid claims and claims adjustment expenses liability at end of year	<u>\$ 100</u>	<u>\$ 100</u>

Certain participating members were adversely impacted by Hurricanes Katrina and Rita which came ashore in South Louisiana in August and September 2005. The Fund experienced certain delays in receiving claims information and making claim payments due to those events. Management incorporated these factors in the estimated amounts of claims payable for the year ending December 31, 2006 and as of December 31, 2007 these amounts still remain as an unsettled liability.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Officers and Trustees
Louisiana Municipal Association
Unemployment Compensation Fund
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Municipal Association – Unemployment Compensation Fund (the Fund), as of and for the year ended December 31, 2007, and have issued our report thereon dated June 6, 2008. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Louisiana Municipal Association – Unemployment Compensation Fund and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Nettlesville

Baton Rouge, Louisiana
June 6, 2008 •

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2007

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

FINANCIAL STATEMENTS

DECEMBER 31, 2007

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Reserve Fund Agency
Baton Rouge, Louisiana

We have audited the accompanying statements of net assets of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) as of December 31, 2007 and 2006 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 and the schedule of ten-year claims development information on page 17 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 6, 2008, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 6, 2008

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Reserve Fund Agency's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2007 and 2006. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2007 by \$21,791,427 compared to \$21,448,368 as of December 31, 2006, which is a 1.6% increase from the previous year.
- At December 31, 2007, the Fund's assets totaled \$41,849,955, which consisted primarily of investment securities primarily composed of cash, direct and indirect investments in U.S. Government debt obligations, and receivables. At December 31, 2006, the Fund's assets totaled \$41,263,666 and were comprised of similar types of assets.
- The Fund reported gross earned premiums of \$3,045,779 and \$2,757,079 during the years ended December 31, 2007 and 2006, respectively.
- The Fund recognized investment income of \$3,044,167 and \$1,758,849 during the year ended December 31, 2007 and 2006, respectively. The increase in investment income is attributed to favorable changes in market values of the Fund's investment portfolios.
- The Fund had an increase in net assets of \$343,059 during the year ended December 31, 2007 and a decrease in net assets of \$1,847,052 during the year ended December 31, 2006.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Assets include all of the Fund's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all its costs through its premium and investment income, profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows. The primary purpose of this statement is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

Overview of the Financial Statements (continued)

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net assets of the Fund and changes in them. The net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Assets at December 31,:

	<u>2007</u>	<u>2006</u>
Total assets	\$ 41,849,955	\$ 41,263,666
Total liabilities	<u>20,058,528</u>	<u>19,815,298</u>
Net assets	<u>\$ 21,791,427</u>	<u>\$ 21,448,368</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 1.4% while liabilities increased slightly due to increase in claims liabilities and accrued expenses. Net assets increased approximately 1.6% from the prior year.

Condensed Statements of Revenues and Expenses and Changes in Net Assets for the Years Ended December 31:

	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 3,045,779	\$ 2,757,079
Operating expenses	<u>5,746,887</u>	<u>6,362,980</u>
Operating loss	(2,701,108)	(3,605,901)
Non-operating income	<u>3,044,167</u>	<u>1,758,849</u>
Change in net assets	<u>\$ 343,059</u>	<u>\$ (1,847,052)</u>

Financial Analysis of the Fund (continued)

During the year ended December 31, 2007, the Fund reported premium earned of \$3,045,779 and investment income of \$3,044,167. Premiums earned increased due to increases in certain premium rates charged to affiliated risk retention funds operated for the benefit of Louisiana municipalities and changes in membership/premiums of those funds. Investment income increased due to more favorable market performance in the Fund's investment as well as continued growth of the portfolio. The Fund reported total expenses of \$5,746,887 which consisted primarily of claims and excess insurance expense. Total expenses decreased approximately \$616,093 due primarily to decreased claims related to public liability risks reinsured and favorable changes in the loss revenue discounting assumptions utilized. The Fund experienced an increase in net assets of \$343,059 for the current year. See Statements of Revenues, Expenses and Changes in Net Assets on page 6 of this report.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Reserve Fund Agency, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006**

ASSETS

	<u>2007</u>	<u>2006</u>
Cash (note 4)	\$ 854,604	\$ 2,056,687
Investments (note 4)	40,536,908	38,525,138
Accrued interest receivable	441,152	471,302
Other receivables	17,291	50,197
Due from affiliates (note 2)	-	156,056
Reinsurance receivable	-	4,286
	<u>\$ 41,849,955</u>	<u>\$ 41,263,666</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Unpaid claims liability (note 3)	\$ 19,878,000	\$ 19,803,000
Due to affiliates (note 2)	11,089	-
Accrued expenses	<u>169,439</u>	<u>12,298</u>
Total liabilities	20,058,528	19,815,298
Net assets	<u>21,791,427</u>	<u>21,448,368</u>
	<u>\$ 41,849,955</u>	<u>\$ 41,263,666</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<u>OPERATING REVENUES</u>		
Premiums earned (note 2)	\$ 3,045,779	\$ 2,757,079
Total operating revenues	<u>3,045,779</u>	<u>2,757,079</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	5,623,246	6,242,879
Reinsurance premium	55,130	54,543
Miscellaneous	<u>68,511</u>	<u>65,558</u>
Total operating expenses	<u>5,746,887</u>	<u>6,362,980</u>
<u>OPERATING LOSS</u>	(2,701,108)	(3,605,901)
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	<u>3,044,167</u>	<u>1,758,849</u>
<u>CHANGE IN NET ASSETS</u>	343,059	(1,847,052)
Net assets, beginning of year	<u>21,448,368</u>	<u>23,295,420</u>
Net assets, end of year	<u>\$ 21,791,427</u>	<u>\$ 21,448,368</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Operating loss	\$ (2,701,108)	\$ (3,605,901)
Adjustments to reconcile operating loss to net cash used in operations:		
Change in due from affiliates, reinsurance receivable, other receivables	204,332	1,172,613
Change in unpaid claims liability	75,000	1,251,000
Change in accrued expenses	<u>157,141</u>	<u>180</u>
Net cash used in operating activities	<u>(2,264,635)</u>	<u>(1,182,108)</u>
Cash flows from investing activities:		
Purchases of investments	(10,598,728)	11,485,377
Proceeds from sales or maturities of investments	9,552,589	(10,391,541)
Investment income received	<u>2,108,691</u>	<u>2,049,289</u>
Net cash provided by investing activities	<u>1,062,552</u>	<u>3,143,125</u>
Net change in cash	(1,202,083)	1,961,017
Cash, beginning of year	<u>2,056,687</u>	<u>95,670</u>
Cash, end of year	<u>\$ 854,604</u>	<u>\$ 2,056,687</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Background and Financial Statement Presentation*

Louisiana Municipal Reserve Fund Agency (LMRFA or the Fund) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Fund is vested in the Executive Board of LMA. LMRFA reinsures the Louisiana Municipal Risk Management Agency (LMRMA) Public Liability Fund, Workers' Compensation Fund and Accident and Health Fund. During 2007 and 2006, LMRFA also reinsured two municipalities.

LMRMA was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The program's general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of LMRMA after actuarial consultation. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a non-profit corporation under the laws of the State of Louisiana. LMA acts as the administrator for LMRFA.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds and LMRFA. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

The various LMRMA Funds, LMA, RMI, and LMRFA are all affiliated through common membership and management control. Although all of these entities are related parties, their various net assets are available only to each individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 14.

(b) *Basis of Accounting*

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Investments*

Investments are reported at estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at estimated fair value are included in investment income. Investments include money market accounts, repurchase agreements, and U.S. Government Agency and Treasury obligations.

(d) *Premium Income*

Most of the premium income of LMRFA collected in the current year is based on a percentage of premium of LMRMA workers' compensation, public liability, and accident and health funds (see note 2). Pursuant to the reinsurance agreements, the LMRMA Funds are responsible for all of LMRFA's claims servicing and administrative costs. For the years ended December 31, 2007 and 2006, LMRFA provided reinsurance directly to municipalities for a total premium of \$66,416 and \$97,721, respectively. Acquisition costs associated with new and renewal contracts are expensed when incurred.

(e) *Operating / Non-Operating Revenue and Expense*

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

(f) *Unpaid Claims Liability*

The policy liabilities reinsured by the Fund are for claims incurred during the benefit period, regardless of when the claims are reported. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as public liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expenses are presented at present value in the financial statements.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Statement of Cash Flows*

For the purpose of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments (see note 4).

(h) *Income Taxes*

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

(i) *Use of Estimates*

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

(j) *Reclassification*

Certain items in the 2006 financial statements have been reclassified to be comparative to the 2007 presentation.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

2. RELATED PARTY TRANSACTIONS

LMA, RMI, LMRMA and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the respective earned standard premiums (ESP) or per participant rates as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Fee Basis</u>	<u>Amount</u>	<u>Fee Basis</u>	<u>Amount</u>
Premium income:				
LMRMA:				
Public Liability	15.0% ESP	\$ 1,722,617	15.0% ESP	\$ 1,663,050
Workers' Compensation	7.25% ESP	651,293	7.25% ESP	596,106
A&H	\$28.32 per participant	605,453	\$18.81 per participant	400,202
		<u>\$ 2,979,363</u>		<u>\$ 2,659,358</u>
Due (to) from affiliates:				
LMRMA:				
Public Liability		\$ (125,381)		\$ (15,396)
Workers' Compensation		114,292		171,452
		<u>(\$ 11,089)</u>		<u>\$ 156,056</u>

Amounts due from the LMRMA Accident and Health Fund represent borrowings for cash flow needs.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the aggregate unpaid claims liabilities for the Fund for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 19,803	\$ 18,552
Less: Reinsurance recoverables	<u>-</u>	<u>-</u>
Liability for unpaid losses at beginning of year, net	<u>19,803</u>	<u>18,552</u>
Net incurred related to:		
Current year	4,297	3,854
Prior years	<u>1,326</u>	<u>2,389</u>
Total incurred	<u>5,623</u>	<u>6,243</u>
Net paid related to:		
Current year	718	712
Prior years	<u>4,830</u>	<u>4,280</u>
Total paid	<u>5,548</u>	<u>4,992</u>
Liability for unpaid losses at end of year, gross	19,878	19,803
Less: reinsurance recoverables	<u>-</u>	<u>-</u>
Liability for unpaid losses at end of year, net	<u>\$ 19,878</u>	<u>\$ 19,803</u>

During 2007, the Fund experienced overall unfavorable development on unpaid claims liabilities established in prior years due largely to the impact of certain adverse development as it relates to workers compensation coverage. During 2006, the Fund experienced overall unfavorable development on unpaid claim liabilities due to public liability adverse claims. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2007 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2007 will not vary from the above estimates, and such difference could be significant.

The Fund's claims payable have been discounted for December 31, 2007 and 2006 based on the Fund's anticipated payout patterns and a discount rate assumption of 5.00% and 5.25%, respectively, which management expects to approximate the interest earnings over the payout period. The estimated reserve payout assumptions used in the discounting were also updated and resulted in increased discounts compared to prior years. Management believes these revised assumptions more accurately reflect the payout patterns and investment earning rates that should be used for discounting reserves. The effect of the reserve discounts was \$7,227,000 and \$5,761,000 at December 31, 2007 and 2006, respectively.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS

LMRFA must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by this Fund shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2007 and 2006.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are certificates of deposit, money market accounts and repurchase agreements.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures*, established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Funds exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2007 and 2006:

<u>Investment Type</u>	2007		2006	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage backed	\$ 15,007,078	\$ 14,952,602	\$ 13,798,830	\$ 13,973,085
U.S. Government agency debt obligations	18,793,248	18,184,577	17,865,259	17,924,430
U.S. Treasury bonds and notes	6,048,982	5,891,696	6,458,602	6,569,998
Short term investments	<u>687,600</u>	<u>687,600</u>	<u>402,447</u>	<u>402,447</u>
TOTAL	<u>\$ 40,536,908</u>	<u>\$ 39,716,475</u>	<u>\$ 38,525,138</u>	<u>\$ 38,869,960</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

4. **DEPOSITS AND INVESTMENTS** (continued)

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a good tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk as of December 31, 2007 and 2006.

Standard and Poor's Rating	Estimated Fair Value 2007	Estimated Fair Value 2006
U.S. Treasury bonds and notes	\$ 6,048,982	\$ 6,458,602
U.S. Government securities and money market		
Not rated	18,403,107	14,201,277
Rated AAA	<u>16,084,819</u>	<u>17,865,259</u>
Total	<u>\$ 40,536,908</u>	<u>\$ 38,525,138</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment on deposit. At December 31, 2007, the Fund had no direct investments in foreign fixed-income securities.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. This risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2007:

<u>INVESTMENT MATURITIES (in years)</u>					
<u>INVESTMENT TYPE</u>	<u>Estimated Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
Short term investments	\$ 687,600	\$ 687,600	\$ -	\$ -	\$ -
U.S. Government mortgage backed	15,007,078	-	462,104	5,085,357	9,459,617
U.S. Government Agencies	18,793,248	1,528,996	12,502,448	4,761,804	-
U.S. Treasury bonds and notes	<u>6,048,982</u>	<u>1,453,587</u>	<u>2,420,946</u>	<u>2,046,418</u>	<u>128,031</u>
TOTAL	<u>\$ 40,536,908</u>	<u>\$ 3,670,183</u>	<u>\$ 15,385,498</u>	<u>\$ 11,893,579</u>	<u>\$ 9,587,648</u>

Net investment income for the years ended December 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Interest income	\$ 2,021,734	\$ 1,912,569
Net realized losses – net	(142,845)	(38,713)
Unrealized gains (losses) arising during the year	<u>1,165,278</u>	<u>(115,007)</u>
	<u>\$ 3,044,167</u>	<u>\$ 1,758,849</u>

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

LMRMA and LMRFA represent a cooperative program for group funding and risk management of public liability, workers' compensation, and accident and health risks of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants.

Ceded:

LMRFA obtained commercial reinsurance to cover a portion of the workers' compensation medical losses for the periods January 1, 1995 through December 31, 2001. For all subsequent years, the LMRFA did not reinsure workers' compensation medical losses. LMRFA obtained commercial reinsurance to cover a portion of the accident and health risks assumed during 2007 and 2006.

Assumed:

For the years ended December 31, 2007 and 2006, LMRFA provided excess reinsurance to LMRMA, Workers' Compensation, Public Liability and Accident and Health Funds with the following limits:

Workers' Compensation Fund

Item I: \$2,000,000 annual aggregate in excess of 80% of earned normal premium

Item II: \$2,000,000 each and every loss in excess of \$175,000 each and every loss

Public Liability Fund

Item I: \$5,000,000 annual aggregate in excess of 65% of earned normal premium

Item II: Each and every loss in excess of \$100,000 each and every loss

Accident and Health Fund

Item I: Annual aggregate in excess of 125% of annual earned normal premium.

Item II: \$900,000 specific losses in excess of \$100,000 each and every loss.

As of December 31, 2007 and 2006, LMRFA also provides reinsurance for two municipalities for workers' compensation claims up to an annual aggregate amount ranging from 80% to 90% of their standard premium.

SUPPLEMENTAL INFORMATION

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
CLAIMS EXPENSE AND RE-ESTIMATED CLAIM ADJUSTMENT EXPENSE**

DECEMBER 31, 2007

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 2007 and as of the end of each of the last nine years.

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
	(in thousands)									
ENP and investment income	\$ 6,090	\$ 4,516	\$ 3,658	\$ 4,052	\$ 4,327	\$ 5,324	\$ 4,290	\$ 4,586	\$ 2,591	\$ 4,474
Operating costs, unallocated	124	120	124	118	135	63	294	293	135	407
Estimated incurred claims and expense, end of policy year	5,650	4,615	4,009	5,743	3,343	3,710	2,309	1,783	1,983	2,302
Paid (cumulative) as of:										
End of policy year	562	712	371	209	239	-	-	-	-	-
One year later	-	1,115	371	209	428	60	413	69	431	-
Two years later	-	-	2,378	337	702	1,463	1,158	300	737	775
Three years later	-	-	-	1,150	1,479	2,348	1,323	629	910	859
Four years later	-	-	-	-	1,594	3,137	1,371	715	1,168	931
Five years later	-	-	-	-	-	3,378	1,629	920	1,226	995
Six years later	-	-	-	-	-	-	1,691	1,075	1,293	1,356
Seven years later	-	-	-	-	-	-	-	1,257	2,083	1,356
Eight years later	-	-	-	-	-	-	-	-	2,864	1,356
Nine years later	-	-	-	-	-	-	-	-	-	1,356
Re-estimated incurred claims and claims expense:										
End of policy year	5,650	4,615	4,009	5,743	3,343	3,710	2,309	1,783	1,983	2,302
One year later	-	4,491	4,564	4,308	3,215	2,656	2,305	1,624	2,319	2,352
Two years later	-	-	5,515	3,824	3,418	4,942	3,335	1,570	3,690	2,434
Three years later	-	-	-	4,059	4,237	5,176	2,011	1,560	3,842	2,167
Four years later	-	-	-	-	4,160	5,592	2,347	1,731	3,555	2,222
Five years later	-	-	-	-	-	6,131	2,421	1,803	3,561	2,132
Six years later	-	-	-	-	-	-	2,245	2,013	3,368	2,595
Seven years later	-	-	-	-	-	-	-	2,177	3,248	2,406
Eight years later	-	-	-	-	-	-	-	-	3,810	2,040
Nine years later	-	-	-	-	-	-	-	-	-	1,765
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(124)	1,506	(1,684)	817	2,421	(64)	394	1,827	(537)

See accompanying independent auditors' report.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Officers and Trustees
Louisiana Municipal Reserve Fund Agency
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund) as of and for the year ended December 31, 2007, and have issued our report thereon dated June 6, 2008. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record or process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the following paragraph to be a significant deficiency in internal control over financial reporting.

During the audit, we noted many of the accounts required adjustment to convert the financial statements from the cash method of accounting to the accrual method of accounting. Accounts receivable had not been adjusted through revenue in order to appropriately reflect the accrual basis of the receivables as reserves well as the related revenue.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Louisiana Municipal Reserve Fund Agency and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlithwaite & Nethercille

Baton Rouge, Louisiana
June 6, 2008

LOUISIANA MUNICIPAL ASSOCIATION

OFFICERS

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Clarence R. Fields
Mayor, Pineville

First Vice President:
Bill Robertson
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Susan Menard
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Executive Director:
Tom Ed McHugh

Stephen J. Theriot
Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Sir,

In the Financial Statements for the Louisiana Municipal Risk Management Agency Workers' Compensation Fund, Public Liability Fund, and Reserve Fund, for the year ended December 31 2007, our auditors Postlethwaite & Netterville, noted a significant deficiency in internal control over our financial reporting in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The deficiency was described as follows:

During the audit, we noted many of the accounts required adjustment to convert financial statements from the cash method of accounting to the accrual method of accounting. Accounts receivable and unearned premium had not been adjusted through revenue in order to appropriately reflect the accrual basis of the receivables/unearned premiums as well as the related revenue. Reinsurance receivables had to be recorded based on subsequent receipt of funds. Additionally, related party expenses, including reinsurance expense, service agent fees and administrative fees had to be calculated, and adjusted along with the related liability.

When the audit results were presented to the Board of Directors at the June 11, 2008, meeting, this deficiency was noted. The deficiency does not result from any changes in the organization's financial controls or from any difference in our relationship with our auditors compared with past years. Nor does this deficiency result from any substandard performance by the staff. The deficiency noted is simply a result of changes in the auditing rules that first became effective in 2006.

The deficiency as noted will be eliminated by having the Chief Financial Officer of the Louisiana Municipal Association make the adjustments to the accounts receivable and unearned premium accounts to properly reflect the accrual basis of the receivables/unearned premiums as well as related revenue. New billing software has been

implemented to allow the Chief Financial Officer to make these adjustments on a timely basis. Reinsurance receivables will also be adjusted by the Chief Financial Officer.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Tom Ed". The signature is stylized with a large, looped "T" and a cursive "Ed".

Tom Ed McHugh
Executive Director
Louisiana Municipal Association